ege complied with applicable state laws and regulations

ant Funds, the audit resulted in an unqualified opinion
atements. As to Plant funds our tests revealed that pr
is not deleted from the accounting records; a physical
s has not been taken in several years; and donated asse
the property records. The amounts by which the financ
change if fixed assets were properly accounted for coul
determined. Consequently, we were unable to express an
l statements of the Plant Funds.

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MONTANA

STATE CAPITOL • HELENA

STATE OF MONTANA
Office of the Legislative Auditor
STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L BRUSETT
LEGISLATIVE AUDITOR

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FINANCIAL-COMPLIANCE AND CONTRACTED AUDITS
STAFF LEGAL COUNSEL
JOHN W. NORTHEY

December 1, 1977

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of Eastern Montana College for the year ended June 30, 1977.

The audit was conducted by Janke and VanDelinder, Certified Public Accountants, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Honorable Thomas L. Judge, Governor*

Honorable Georgia Ruth Rice, Superintendent of Public Instruction*

Dr. Lawrence K. Pettit, Commissioner of Higher Education*

Lewy Evans, Jr.	Billings	1983
Lola Hansen	Sidney	1984
Ted James	Great Falls	1979
Jeffrey B. Morrison	Helena	1980
Mrs. Mary Pace	Bozeman	1978
John L. Peterson	Butte	1982
Sid R. Thomas	Missoula	1978

* ex officio members

EASTERN MONTANA COLLEGE

LOCAL EXECUTIVE BOARD

Mrs. Vera Gerke	April	1978
James E. Edwards	April	1979
John C. Sheehy	April	1980

ADMINISTRATION

Dr. John E. Van de Wetering	President
Kenneth W. Heikes, CPA	Administrative Vice President
Glen I. Williams, CPA	Controller

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto as a ready reference to the supporting comments. The full replies of Eastern Montana College and the Office of the Commissioner of Higher Education are included in the back of this report.

	Page
The College should keep currently informed as to the status of trust account investments and give the trustee aid and direction in the investment of trust funds.	2
Agency Reply: Concur. See page 29.	
Segregate duties in the Student Housing Office.	3
Agency Reply: Concur. See page 30.	
Recognize income and receivables from student housing.	3
Agency Reply: Concur. See page 30.	
Periodically age the student housing accounts receivable and send the reports to all responsible officials.	3
Agency Reply: Concur. See page 30.	
Damage deposits be received directly by the Business Office.	4
Agency Reply: Concur. See page 31.	
The Housing Office should notify the Business Office as to any non-cash charges for damage deposits.	4
Agency Reply: Concur. See page 31.	
Periodically the detail and general ledger should be reconciled and significant differences investigated.	4
Agency Reply: Concur. See page 31.	
The College should exercise caution to ensure that property acquisition and improvements are made from the proper funds.	5
Agency Reply: Concur. See page 31.	
The College should conduct a complete physical inventory of fixed assets and provide them with identification tags.	5
Agency Reply: Concur. However, adequate resources to fund such a record system and to maintain it have not been appropriated. See page 32.	

Page

Detailed property records should be maintained and periodically reconciled to the general ledger. 5

Agency Reply: It is our understanding that the Department of Administration is developing a Property Accountability Management System and we will review it carefully as to what it can or cannot do. See page 32.

Property records should be relieved for disposals of property. 5

Agency Reply: Same as immediately preceding reply. See page 32.

Property acquired by gift should be recorded at fair market value at the date of gift. 5

Agency Reply: Corrections have now been made. See page 33.

Supporting documents for the purchase of fixed assets should indicate the item being replaced or purpose of an addition. 5

Agency Reply: Same reply for recommendation regarding detailed property records. See page 32.

The Board of Regents should adopt a uniform policy regarding the purchase of delinquent National Direct Student Loans. 6

Agency Reply: The Board will immediately institute administrative processes to establish a policy. See page 38.

The Board of Regents should establish a policy as to the necessity of allocation of general and administrative expenses. 7

Agency Reply: The Board will immediately institute administrative processes to establish a policy. See page 38.

The College should review all charges to the operation and maintenance program and consult with the Office of the Commissioner of Higher Education regarding these charges. 7

Agency Reply: Concur. See page 33.

The College should establish control over the physical plant inventories and reflect the inventory in the financial statements. 8

Agency Reply: Concur. The Physical Plant stores is an area that we have not been able to control due to limited space. Funds for a new Physical Plant facility have been appropriated and when the structure is completed, this problem will be better addressed. See page 34.

Personnel responsible for inventories be cautioned as to the importance of accurate counts, proper cut-off and storage. 8

Agency Reply: Concur. See page 34.

	Page
Periodic test count of inventories should be taken and compared to perpetual records. Significant discrepancies should be investigated.	8
Agency Reply. Concur. See page 34.	
The Commissioner's office should complete the payroll study and implement a new system.	9
Agency Reply: The Office will complete the study designed to assess the strengths and weaknesses of the payroll systems of all University units. See page 38.	
Duties and responsibilities of payroll personnel should be rearranged to strengthen internal control.	9
Agency Reply: Concur. See page 35.	
The College should either amend the agreement to (a) provide for investments in STIP or (b) comply with investment instructions of the present agreement.	10
Agency Reply: Concur. See page 35.	
The financial aid director should prepare a list of reports and summary of instructions.	10
Agency Reply: Concur. See page 36.	
The Financial Aid Office should review its reports with the Business Office.	10
Agency Reply: Concur. See page 36.	
Written approval should be obtained for non-compliance with applicable rules and restrictions of restricted funds.	11
Agency Reply: Concur. See page 36.	
Restricted funds should not be used to make inter-entity loans.	11
Agency Reply: Disagree. It is not unlawful practice to borrow from any fund - especially restricted funds -- as long as the terms and conditions governing the individual accounts on any fund group are not violated. See page 36.	
Steps should be taken to ensure that all inter-entity loans are accounted for separately in its accounting record.	11
Agency Reply: Concur. See page 36.	
Change funds needed on a temporary basis should be promptly returned to the Montana State Treasurer.	12

Page

Agency Reply: Concur. See page 37.

Journal entries should be adequately supported and reviewed and approved by appropriate supervisors. 12

Agency Reply: Concur. See page 37.

All journal entries should be recorded only after approval by appropriate College personnel. 12

Agency Reply: Concur. See page 37.

JANKE AND VAN DELINDER

CERTIFIED PUBLIC ACCOUNTANTS

JAMES N JANKE, CPA
DALLAS W VAN DELINDER, CPA
DARRELL E. EHRLICK, CPA

Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of Eastern Montana College as of June 30, 1977, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Except as explained in the third paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The College made certain revisions to the financial statements regarding an allowance for doubtful accounts in the current unrestricted education and general fund and the loan fund in order to more fully conform to appropriate accounting principles and reporting guidelines. See Note 6 to the financial statements for further explanation.

Our tests of the investment in plant fund were limited to a review of activity for the year ended June 30, 1977 and did not include a review of accumulated balances prior to July 1, 1976. Our tests revealed property disposed of is not deleted from accounting records; a physical inventory of properties has not been taken for many years; and donated assets are not reflected in the property records. The amounts by which the financial statements would change if fixed assets were properly accounted for cannot practicably be determined. Because of the matters described in this paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet and statement of changes in fund balances of the Plant Funds.

In our opinion, the aforementioned financial statements, excluding Plant Funds, present fairly the financial position of Eastern Montana College at June 30, 1977, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the adjustment of allowance for doubtful accounts as described in Note 6 to the financial statements, have been applied on a basis consistent with that of the preceding year.

October 26, 1977

Janke & Van Delinder

720 NORTH 30TH STREET □ BILLINGS, MONTANA 59101 □ AC 406-245-5136

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

C O M M E N T S

General

Eastern Montana College was established in Billings by the 1927 Legislative Assembly. It was initially called Eastern Montana Normal School at Billings. Its name was changed in 1949 to Eastern Montana College of Education, and in 1965 to Eastern Montana College. The College offers academic programs in education, liberal arts and sciences, undergraduate and graduate teacher education, and professional and vocational education. Eastern has been given authority to grant a Bachelor of Science degree in Education, a baccalaureate degree in secondary education and a Master's Degree in elementary education. In addition, the College is authorized to confer liberal arts degrees of Bachelor of Arts and Bachelor of Science. In 1968, authority was given to grant a Master of Science in Rehabilitation Counseling. The College also has authority to award degrees of the Associate of Arts and Associate of Science.

The College is under the control and supervision of the seven-member Board of Regents of Higher Education.

The campus is comprised of approximately 70 acres of land containing twelve buildings providing administrative offices, classrooms, laboratories, auditoriums, physical education facilities, student housing, and other facilities.

The State General Fund and the University Millage are the primary sources of revenue to operate the College. Revenue is also generated from student fees, land grant income, Federal, State and private grants, and auxiliary enterprise operations. The nature and extent of the revenue from these various sources are depicted in the exhibits which are presented in the style and format unique to higher education.

Investments with Trustee

The College has certain accounts which are maintained by a trustee as required under certain revenue bond indentures. The accounts and balances at June 30, 1977 are as follows:

Indenture	Balance
1956 Indenture - Bond Service	$ 43,472
1964 Resolution - Bond Service	492,432
Repair & Replacement	43,728
1965 Indenture - Bond Service	199,095
Total	778,727

At June 30, 1977, $513,701 of the above total was deposited in a savings account bearing interest at 5% per annum. The balance of $265,027 was invested in U.S. Treasury Notes and certificates of deposit yielding 6% per annum or higher. The majority of the Bond Service funds were on deposit in the savings account for a significant portion of the year.

Even though the investment of trust account monies are limited to general obligations of the United States or securities whose principal and interest payments are guaranteed by the United States, the trustee could have made investments with a higher annual yield than that received on deposits in a savings account.

The bond indentures grant to the College the authority to direct the trustee in making investments of these funds. There is no evidence that this authority was used during the period audited. The lack of a vigorous investment policy has reduced the return on these monies.

Recommendation

The College should keep currently informed as to the status of trust account investments and give the trustee aid and direction in the investment of these monies with a goal to achieve a maximum return compatible with the terms and conditions as set forth in the bond indentures.

Housing Office Receipts

Internal control in the Student Housing Office is inadequate. In this connection, the following was noted:

(1) One employee is primarily responsible for maintaining accounts receivable records and receiving payments on account.

(2) Housing receivables are not recorded on the College's general ledger nor are they recognized in its financial statements. Income is recognized only when the Housing Office transmits collection receipts to the Business Office cashier. There is no overall accountability for individual transactions.

(3) The Housing Office is using a posting machine to process individual ledger cards and a validating machine to process receipts. However, the totals generated by these machines are not used in the general accounting records of the College.

(4) According to the records maintained by the Housing Office, there were receivables totalling approximately $21,500 at June 30, 1977. Of this amount, $14,800 was over one year past due and the collectibility of a significant portion of it is considered doubtful by College personnel.

Recommendation

We recommend that the College strengthen internal control over Housing income. In this regard we offer the following suggestions:

(1) Segregate the duties of maintaining student ledger cards from the duty of receiving student payments, preferably by transferring to the Business Office cashier the responsibility of receiving all student payments.

(2) Recognize income and receivables on the College general ledger

from student housing at the time the charge is entered on the student ledger card. This can be done by utililizing the posting machine totals that are generated whenever transactions are posted to student ledger cards. Periodic reconciliation should be made between the general ledger and the detail accounts receivable ledgers.

(3) The accounts receivable should be aged at least monthly with copies of the ageing report sent to all responsible officials.

Damage Deposits

Students residing in one of the College's residence halls must pay a room damage deposit of $25. If no damages have occurred for which the student is responsible, the deposit is refunded when the student checks out. The damage deposits are received by the Housing Office which maintains records for each student. The receipts are sent to the Business Office for deposit and recording in the general ledger. At June 30, 1977 the general ledger indicated a balance of $18,322, while the detail list totalled $12,163. Investigation revealed that differences were the result of: (1) charges to students for the cost of damage and (2) the use of the deposits to reduce students' other receivable balances.

These adjustments had been posted to the students' detail ledgers maintained by the Housing Office but had not been communicated to the Business Office so adjustments could be made to the general ledger. Appropriate adjustment was made to the financial statements.

Recommendation

To strengthen internal control, we recommend the following:

(1) Damage deposits be received directly by the Business Office (see recommendation #1 under Housing Office Receipts).

(2) The Housing Office should notify the Business Office as to any non-cash charges to students in order that appropriate adjustment may be made to the general ledger.

(3) Periodically, certainly at fiscal year-end, the detail and general ledger should be reconciled. Significant differences, if any, should be investigated.

Payment of Property Acquisitions and Improvements

In item No. 13-702-R0776, the Board of Regents approved the purchase of a small parcel of land. The cost totalled $1,535 and funds were to be provided from rental of other properties. However, the acquisition was paid from funds of the Physical Education Building.

In item No. 8-702-R0745, the Board of Regents approved the construction of a parking lot. The cost totalled $30,661 and was to be paid from accumulated funds of parking fees, fines and permits. Only $5,000 of the total cost was paid from these funds. The remaining cost was paid from accumulated funds of rental houses owned by the College.

Subsequent to June 30, 1977, the College made adjustments correcting both of these errors.

Recommendation

Even though the errors were corrected, the College should exercise caution in the future to ensure that property acquisition and improvements are made from the proper funds.

Physical Properties and Related Items

As noted in prior audit reports, the College's accounting records for fixed assets continues to be inadequate. The balance sheet reflects an investment in plant of $20,199,637; however, the College doe not have subsidiary property records to support this amount. This problem appears to be a University System wide problem and is not peculiar to Eastern. It is our understanding studies are being conducted with the objective of providing a system for accounting for property.

Specific problems regarding property records are as follows:

(1) A complete physical inventory has not been taken for many years. However, the College has been engraving significant equipment items with a single identification number which will assist in recovery of items stolen or otherwise lost.

(2) The records are not relieved for property disposals.

(3) When items are purchased, the supporting records do not indicate the items being replaced or the purpose for an addition.

(4) Individualized identification tags are not used.

(5) Donated assets are not recorded in the accounting records. Because of inadequate property accounting records, errors in recording fixed assets can easily go undetected. During the period under audit, we noted the following errors which had to be corrected by audit adjustments:

(a) A computer costing $52,043 was purchased during the year ended

June 30, 1976. However, the cost was inadvertently omitted when the 1975-76 fixed assets were recorded and was not corrected until after June 30, 1977.

(b) Building renovations totalling $344,782 had been recorded in prior years, but were mistakenly recorded for a second time during the 1976-77 fiscal year. The error was corrected subsequent to June 30, 1977.

(c) Other miscellaneous acquisitions and improvements totalling $11,970 had also been recorded twice. These errors were corrected subsequent to June 30, 1977.

Recommendation

The College should continue in its efforts to improve accountability over its investment in plant. In this regard, we recommend the following:

(1) The College should conduct a complete physical inventory of fixed assets and provide the inventoried assets with individualized identification tags.

(2) Detail property records should be maintained and periodically reconciled to the general ledger. In the absence of historical cost records, the assets may be stated at historically based appraised values with subsequent additions at cost.

(3) Property records should be relieved for disposals of property.

(4) In accordance with the industry audit guide, property acquired by gift should be recorded at fair market value at the date of gift.

(5) Supporting documents for the purchase of fixed assets should indicate the item being replaced or purpose of an addition.

National Direct Student Loans

The College participates in the National Direct Student Loan Program whereby the Federal government provides approximately 90% of the funds to be loaned to students. Accordingly, 90% of any uncollectible loans, including accrued delinquent interest, would reduce the U.S. government's portion of the funds advanced, unless it can be proven that the College was negligent in its efforts to collect delinquent accounts. In recent years, the College has strengthened its collection procedures by the addition of one full-time employee whose primary responsibility is the continual monitoring of student loan funds. Prior to this, the College relied almost entirely on the service center which acts as a collection agent as well as providing detail loan ledgers to the College.

The total amount of scheduled loan payments delinquent as a percentage of total student loans receivable in repayment status for the four most recent years are

as follows:

Fiscal Year Ended June 30,	Percentage
1974	22%
1975	24
1976	19
1977	18

Even though the College strengthened its collection procedures, the financial aid director believed that the high delinquency rate could jeopardize the continuation of Federal funding. It is our understanding from discussions with College officials that the Department of Health, Education and Welfare recently cautioned all institutions receiving Federal funds for the NDSL program to provide collection procedures as called for by applicable rules and regulations of the Program. The College has not received any direct communications from the Department which would indicate an immediate danger to the Program's continuation. During the past two fiscal years, the College used current unrestricted education and general funds to purchase delinquent NDSL loans. These loans were recorded in another College loan fund. The loans involved were $9,576 (58 loans) and $20,178 (33 loans) for the fiscal years ended June 30, 1977 and 1976, respectively. The College has established an allowance for doubtful accounts of $21,496. For the year ended June 30, 1977, the funds used to repay the loans came from the academic support program.

By using State funds to purchase delinquent NDSL loans, a substantial portion of which are acknowledged to be uncollectible, the College has increased its share of potential loss on these loans from approximately 10% to 100%.

The rules and regulations of the NDSL program do not require the College to purchase delinquent loans unless it can be shown that the College has been negligent in its collection efforts. We feel the College has recently greatly strengthened its collection procedures and its delinquency rate should be coming down.

Recommendation

We recommend the Board of Regents review this practice and adopt a uniform policy regarding the purchase of delinquent National Direct Student Loans.

Allocation and Reclassification of Expenditures

The industry audit guide, Audit of Colleges and Universities states that expenditures for general executive and administrative offices, such as the president's office, should be allocated to auxiliary enterprises and any other activities not reported under current unrestricted education and general funds. From discussions with College officials it appears a definite policy has not been established by the Board of Regents regarding this allocation.

A similar situation exists as to the proper reporting of property insurance expenditures. Pronouncements of the National Association of College and University Business Officers (NACUBO) require that property insurance be reported

as an expenditure of the operation and maintenance of plant program. Presently, the College is reporting this expenditure in the institutional support program.

Recommendation

In order to promote consistency and/or comparability among the units we recommend the following:

(1) The Board of Regents should establish a policy as to the necessity of allocation of general and administrative expenses and, if considered necessary, the individual units should be provided with specific instructions as to the allocation methods to be used.

(2) The College should review all charges being made to the operation and maintenance program to ascertain whether all charges are being included. Furthermore, the Office of Commissioner of Higher Education should be consulted to ensure consistency and comparability among the units.

Inventories

The College maintains inventories in the bookstore, stores, copyroom, machine center, and student union. These inventories, totalling $181,097, of which the bookstore inventory is $132,733, are included on the balance sheet at June 30, 1977. However, the College does not maintain an inventory of physical plant supplies or report them in the financial statements. It appears that the inventory at any one time ranges from $30,000 to $50,000.

Our observation of inventories taken at June 30, 1977 revealed several minor deficiencies. In the stores area, like-kind items were kept in more than one location. This caused several errors in the count. The student union inventory was taken prior to June 30, 1977; to ensure a proper and accurate cutoff, the inventory was taken again at June 30. However, the first inventory was used to calculate ending inventory for financial statement purposes. Finally, the College does not periodically test the perpetual records with goods actually on hand to ascertain whether or not inventory control is being maintained.

Recommendation

We recommend the following:

(1) The College should establish control over the physical plant inventories by maintaining perpetual records similar to the system used in the stores operation. The inventory should also be reflected in the financial statements.

(2) Personnel responsible for inventories be cautioned as to the importance of accurate counts and proper cutoff and storage .

(3) Periodic test counts of inventories should be taken and compared to the perpetual records. Significant discrepancies should be investigated.

Payroll

As mentioned in prior audit reports, the College is not using the State's central payroll system nor is this system capable of handling the College's payroll. As an alternative, the Office of the Commissioner of Higher Education is presently studying a payroll program which can be used at all of the University units. We commend the Commissioner's office for this study and encourage completion and implementation as quickly as possible.

Hopefully, the new system would eliminate a present duplication of effort which requires Eastern to prepare and send to Helena payroll source cards from which payroll warrants are prepared. The warrants are then returned to Eastern for distribution. The resulting time lag creates problems as to employees receiving their payroll warrants on a timely basis. The new system should obviate the need for the source cards.

Our review of payroll revealed that a few employees perform the majority of the payroll functions. This situation, which weakens internal control, has the payroll department receiving and distributing payroll warrants, checks and annual wage and tax withholding statements (Form W-2). Any unclaimed warrants or W-2's are returned to the payroll department.

Recommendation

We recommend the following:

(1) The Commissioner's office should complete the study and implement a new payroll system which will eliminate present inefficiencies.

(2) Duties and responsibilities of payroll personnel should be rearranged so that payroll warrants and Form W-2's are received and distributed by someone other than the persons responsible for payroll preparation. In addition, unclaimed warrants and W-2's should be handled and investigated by someone outside the payroll department.

Capital Construction Account

The College bookstore has an agreement with the Associated Students of the College whereby one-half of the annual bookstore profits are paid to a capital construction account. The accumulated funds are to be used for the future construction of student facilities. Since the agreement was made in 1967, funds have accumulated to a total of over $61,000. Most of this amount is invested in the State Board of Investment's Short-Term Investment Pool (STIP). The original agreement states that invested funds should be "...invested at the maximum interest rate in a savings and loan association insured by the Federal government, United States Treasury Bills, or Bank Certificates of Deposit..."

Recommendation

We recommend the College should either (a) amend the agreement to provide for investments in STIP or (b) comply with the investment instructions of the present agreement.

Fee Waivers

Since the prior audit, the College has significantly improved its accounting for fee waivers. In addition to the accounting for the waivers, a report is required to be prepared and sent to the Commissioner of Higher Education. The report form calls for information regarding types of waivers, number of students receiving waivers and dollar value of waivers. At the time of our audit, the report had not been filed. The financial aid director did have a rough draft which we reviewed. The dollar amount of total waivers did not agree to the College's accounting records. In addition, several instances were noted where the number of students receiving a certain type of fee waiver exceeded the limitations. From our discussions with College personnel, we determined the latter discrepancy resulted from a duplication of students on the report.

Recommendation

We recommend the following:

(1) The financial aid director should prepare a list of reports and summary of instructions to ensure that reports are filed on a timely and accurate basis.

(2) The Financial Aid Office should review its reports with the Business Office to ascertain that the reports are in agreement with the College's accounting records.

Restricted Funds

For several years, we have performed financial-compliance audits of several of the College's Federal programs. These programs are as follows: National Direct Student Loan Program, Supplemental Educational Opportunity Grants Program, College Work-Study Program, Upward Bound, Special Services and Teacher Corps. During the current year, we reviewed on a cursory basis and tested transactions of all other restricted funds of the College. Our review indicated that the College is in general compliance with all of the restrictions and limitations of the grants, except for the following:

The Federal program, Rehabilitation Counseling, operates under the instructions of the Grants Administration Manual which permits transfers among similar budget items up to 15% of the total grant or $2,000, whichever is less. Since the grant totalled $62,000, the program was limited to transfers of $2,000. However, the College transferred $2,756 to the tuition and fees budget item from the stipends budget item. College personnel state that verbal approval was obtained before the transfer was made, but written approval was never obtained.

Recommendation

The College should obtain written approval for non-compliance with applicable rules and regulations of restricted funds.

Inter-entity Loans

During June 1976, the College purchased a computer costing $52,043 (see comments regarding physical properties). The funds for the purchase were made available through an inter-entity loan from restricted to current unrestricted funds. As the name of the fund implies, restricted funds contain limitations regarding the use of the funds. Although we found no specific violations, the loan is a questionable practice. The loan was repaid in two installments, the final one being in December 1976.

The loan was also improperly reflected on the College's financial statements for the year ended June 30, 1976. The inter-entity loan receivable was not shown in restricted funds but rather restricted expenditures were increased by the cost

of the computer. The current unrestricted funds reflected the inter-entity loan payable as an accrued liability. These errors resulted in the duplicate recording of the cost of the computer in the current statement of revenues, expenditures and other changes.

Recommendation

We recommend the following:

(1) Restricted funds should not be used to make inter-entity loans. Although the funds' restrictions may contain no specific prohibition against making loans of this type, the College will avoid jeopardizing future grants by discontinuing these loans.

(2) The College should take steps to ensure that all inter-entity loans are accounted for separately in its accounting records.

Registration Change Fund

During June 1977, the College requested and received a change fund from the Montana State Treasurer. This change fund was to be used for summer registration. The funds, although deposited in the College's local contingent bank account, were still on hand at the latter part of August 1977.

Recommendation

Change funds needed on a temporary basis should be promptly returned to the Montana State Treasurer.

Journal and Miscellaneous Entries

Many of the journal entries which we examined either did not contain adequate explanations or the explanations were difficult to understand. It appears that some journal entries are made without review and approval by a supervisor. For example, during March 1976, an entry for $30,000 was made to transfer funds to the Montana State Treasurer. The entry was duplicated in June 1976 and, as a result, the College's financial statements at June 30, 1976 reflected an understatement of $30,000 to cash and student tuition and fees. Both entries were inadequately explained and were not reviewed by a supervisor.

Also, certain entries were made to the College's records by the Department of Administration without the prior knowledge of the College. One such entry was incorrectly made to an accounting entity's fund balance. In our opinion, College personnel should give final approval to all entries made to its accounting records; otherwise, the College's internal control is seriously weakened.

Recommendation

We recommend the following:

(1) Journal entries should be adequately supported by complete expla-

nations or references to work papers supporting the entries. Furthermore, all entries should be reviewed and approved by appropriate supervisors.

(2) All journal entries should be recorded only after approval by appropriate College personnel.

Building Maintenance and Repairs

The bidder information dated April 15, 1977, from which our proposal to audit Eastern Montana College was prepared, called for certain information to be included in our comments, regarding building maintenance. The information requested is as follows:

Source	Amount
Current unrestricted:	
Education and general - instruction program	$ 87
" " " - institutional support	4,440
" " " - operation & maintenance of plant	77,317
Auxiliary enterprises - Apsaruke Hall	9,675
" " - Cisel Hall	28,053
" " - Petro-Rimrock Hall	81,075
" " - Rental Houses	12,963
" " - student union	6,296
" " - bookstore	2,518
" " - parking lots	6,524
" " - health services	89
" " - Physical Education Building	20,041
Designated Funds - Copy Room	48
Total	249,126

Our examination of these expenditures revealed no material monetary discrepancies or exceptions to applicable laws and regulations. This section is included for informational purposes only and, accordingly, includes no recommendations.

Prior Audit Findings

We have reviewed the audit findings and recommendations contained in the audit report for the year ended June 30, 1974. Except for the following comments, the College appears to have complied with all recommendations or circumstances have changed to make the recommendations inapplicable.

Accounts Receivable

Recommendation: The College should centralize the accounting for accounts receivable at the Business Office.

Finding: Improvement in accounting for accounts receivable has been made. However, Housing Office receivables are still not under the Business Office's control. See comment at page 3.

Deferred Student Fees

Recommendation: We recommend that the College determine the proper use of administrative charges for deferred fees.

Finding: The College is now recording the charge in the current unrestricted education and general fund. This appears to be a proper use for the charge and, accordingly, this comment is for informational purposes only.

Control over Cash

Recommendation: The College should require all payments received on behalf of the College, especially for student housing, be made directly to the Business Office whenever practicable.

Finding: This continues to be a problem. See comments at page 3.

Payroll

Recommendation: We recommend that the College work with the Department of Administration and Central Payroll Division to develop a payroll system which will better meet the College's needs.

Finding: The Office of the Commissioner of Higher Education is studying a payroll system which could streamline payroll for all University units. See comment at page 9.

Inventories

Recommendation: We recommend that the College devise an inventory system to control supplies at the physical plant and report the inventory value in the financial statements.

Finding: This continues to be a problem. See comment at page 8.

Plant Funds

Recommendation: We recommend that the College establish adequate plant, property and equipment records.

Finding: This continues to be a problem. See comment at page 5.

Financial Statement Reporting

Recommendation: We recommend that the College revise its reporting practices in accordance with generally accepted reporting standards.

Finding: Most specific exceptions to reporting practices have been changed except for the following:

(1) General administrative costs are not being allocated to auxiliary

enterprises. See comment at page 7.

(2) Rental houses are still classified as an "other self-supporting program" or auxiliary enterprise. Guidelines of the National Association of College and University Business Officers states that an auxiliary enterprise may be one which provides services to the general public. Accordingly, the College believes that it is appropriate to classify the houses as auxiliary enterprises. We concur with their opinion.

Final Comments

We have reviewed the comments and recommendations contained in this report with officials of Eastern Montana College and the Office of the Commissioner of Higher Education.

We wish to express our appreciation to those officials and their staff for the cooperation and assistance we received from them during our audit.

October 26, 1977

Jack E. VanDusen

Financial Statements

EASTERN MONTANA COLLEGE
Balance Sheet
June 30, 1977

	ASSETS			
	Education & General	Designated	Auxiliary Enterprises	Total
Current Funds:				
Unrestricted:				
Cash	$ 606,099	$ 103,196	$ 314,971	$1,024,266
Investments (Note 2)		28,779	420,379	449,158
Accounts receivable	22,870		26,079	48,949
Allowance for doubtful accounts (Note 6)	(15,000)			(15,000)
Due from other funds	23,841			23,841
Inventories (Note 3)		41,267	139,830	181,097
Prepaid expenses	6,633	191	1,791	8,615
Total unrestricted	644,443	173,433	903,050	1,720,926
Restricted:				
Cash				156,007
Investments (Note 2)				21,107
Due from governmental entities				41,021
Due from other funds				691
Prepaid expenses				2,069
Total restricted				220,895
Total current funds				1,941,821
Loan Funds:				
Cash				38,899
Accounts receivable				3,994
Loans receivable, less allowance for doubtful accounts of $21,496 (Note 4)				926,394
Total loan funds				969,287

See Notes to Financial Statements.

	LIABILITIES AND FUND BALANCES			
	Education & General	Designated	Auxiliary Enterprises	Total
Current Funds:				
Unrestricted:				
Accounts payable and accrued liabilities	$ 454,980	$ 12,801	$ 78,438	$ 546,219
Students' deposits			12,062	12,062
Due to other funds		3,189	13,778	16,967
Due to State General fund (Note 6)	39,689			39,689
Deferred revenue	149,774			149,774
Fund balance		157,443	798,772	956,215
Total unrestricted	644,443	173,433	903,050	1,720,926
Restricted:				
Accounts payable and accrued liabilities				62,408
Fund balance				158,487
Total restricted				220,895
Total current funds				1,941,821
Loan Funds:				
Fund balances:				
National Direct Student Loan Program:				
Federal grants refundable				1,156,953
College contribution - restricted				128,551
Non-capital deficit - unrestricted				(326,195)
Other loan fund - restricted				9,978
Total loan funds				969,287

See Notes to Financial Statements.

EASTERN MONTANA COLLEGE
Balance Sheet - continued
June 30, 1977

	ASSETS			
	Education & General	Designated	Auxiliary Enterprises	Total
Plant Funds:				
Unexpended:				
Cash				$ 24,026
Renewal and Replacement:				
Cash in savings account with trustee				43,728
Retirement of Indebtedness:				
Cash in savings account with trustee				469,972
Investments with trustee (Note 2)				265,027
Total				734,999
Investment in plant (Note 7):				
Land				401,535
Construction in progress				683,939
Buildings				15,557,971
Equipment				3,474,556
Other improvements				81,636
Total investment in plant				20,199,637
Total plant funds				21,002,390
Agency Funds:				
Cash				96,409
Investments (Note 2)				89,690
Prepaid expenses				129
Total agency funds				186,228

See Notes to Financial Statements.

	LIABILITIES AND FUND BALANCES			
	Education & General	Designated	Auxiliary Enterprises	Total
Plant Funds:				
Unexpended:				
Fund balance				$ 24,026
Renewal and Replacement:				
Fund balance				43,728
Retirement of Indebtedness:				
Fund balance				734,999
Investment in Plant:				
Bonds payable (Note 5)				4,600,000
Fund balance				15,599,637
Total investment in plant				20,199,637
Total plant funds				21,002,390
Agency Funds:				
Accounts payable				7,720
Due to other funds				7,565
Deposits held in custody for others				170,943
Total agency funds				186,228

See Notes to Financial Statements.

EASTERN MONTANA COLLEGE

Statement of Changes in Fund Balances

For the Year Ended June 30, 1977

	CURRENT FUNDS			
	UNRESTRICTED			RESTRICTED
	Education & General	Designated	Auxiliary Enterprises	
Revenues and Other Additions:				
Educational and general revenues	$6,285,123	$ 95,491		
Auxiliary enterprises revenues			$2,343,438	
State appropriations - restricted				
Federal grants and contracts - restricted				$ 923,668
Other grants, contracts and donations - restricted				463,904
Investment income - restricted				1,408
Interest on loans receivable				
U.S. government advances and reimbursements				
Expended for plant facilities (including $444,341 charged to current funds expenditures)				
Retirement of indebtedness				
Excess of recharge receipts over actual expenses		9,996		
Total revenues and other additions	6,285,123	105,487	2,343,438	1,388,980
Expenditures and Other Deductions:				
Educational and general expenditures	6,171,445	99,497		1,354,496
Auxiliary enterprises expenditures			1,965,544	
Indirect costs recovered				65,728
Refunded to grantors				4,174
Loan cancellations and write-offs				
Collection costs				
Expended for plant facilities				
Retirement of indebtedness				
Interest on indebtedness				
Total expenditures and other deductions	6,171,445	99,497	1,965,544	1,424,398

See Notes to Financial Statements.

LOAN FUNDS	PLANT FUNDS			
	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
$ 7,396	$ 715,808			
101				
		$ 2,128	$ 44,362	
15,731				
130,338				
				$ 1,237,948
				160,000
153,566	715,808	2,128	44,362	1,397,948
10,909				
68,274				
1,399				
	793,607			
			160,000	
			159,907	
80,582	793,607	-0-	319,907	-0-

See Notes to Financial Statements.

EASTERN MONTANA COLLEGE
Statement of Changes in Fund Balances - continued
For the Year Ended June 30, 1977

	CURRENT FUNDS			
	UNRESTRICTED			RESTRICTED
	Education & General	Designated	Auxiliary Enterprises	
Transfers Among Funds - Additions (Deductions):				
Mandatory:				
Principal and interest			$ (280,380)	
Loan fund matching grant	$ (6,525)			
Restricted fund matching grants	(62,357)			$ 62,357
Renewals and replacements			(30,661)	
Payment of National Direct Student Loans	(20,178)			
Miscellaneous	(24,618)	$ 25,218		(600)
Total transfers	(113,678)	25,218	(311,041)	61,757
Net increase (decrease) for the year	-0-	31,208	66,853	26,339
Fund balance July 1, 1976 (Note 6)	-0-	126,235	731,919	132,148
Fund balance June 30, 1977	-0-	157,443	798,772	158,487

See Notes to Financial Statements.

LOAN FUNDS	PLANT FUNDS			
	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
			$ 280,380	
$ 6,525				
	$ 30,661			
20,178				
26,703	30,661	-0-	280,380	-0-
99,687	(47,138)	2,128	4,835	1,397,948
869,600	71,164	41,600	730,164	14,201,689
969,287	24,026	43,728	734,999	15,599,637

See Notes to Financial Statements.

EASTERN MONTANA COLLEGE

Statement of Current Funds Revenues, Expenditures, and Other Changes

For the Year Ended June 30, 1977

	UNRESTRICTED			
	Education & General	Designated	Auxiliary Enterprises	Total
Revenues:				
Educational and General:				
Tuition and fees	$1,212,467	$ 92,230		$1,304,697
State governmental support	4,932,448			4,932,448
Federal grants and contracts				
Other gifts, grants and contracts				
Sales, service, and miscellaneous	42,606	3,261		45,867
Investment earnings	20,965			20,965
Indirect costs recovered	76,637			76,637
Auxiliary Enterprises:				
Tuition and fees			$ 503,116	503,116
Land grant income			46,844	46,844
Sales and services			1,769,665	1,769,665
Investment earnings			23,813	23,813
Total revenues	6,285,123	95,491	2,343,438	8,724,052
Expenditures and Mandatory Transfers:				
Educational and General:				
Instruction and departmental research	3,275,871	86,106		3,361,977
Public service	1,357	13,391		14,748
Academic support	551,080			551,080
Student services	492,845			492,845
Institutional support	771,919			771,919
Operation and maintenance of plant	889,921			889,921
Student aid	188,452			188,452
Mandatory transfers for:				
Loan fund matching grant	6,525			6,525
Restricted fund matching grants	62,357			62,357
Auxiliary Enterprises:				
Expenditures			1,965,544	1,965,544
Mandatory transfers for principal and interest			280,380	280,380
Total expenditures and mandatory transfers	6,240,327	99,497	2,245,924	8,585,748

See Notes to Financial Statements.

RESTRICTED	TOTAL
	$ 1,304,697
	4,932,448
$ 878,272	878,272
474,816	474,816
	45,867
1,408	22,373
	76,637
	503,116
	46,844
	1,769,665
	23,813
1,354,496	10,078,548
550,280	3,912,257
259,377	274,125
57,432	608,512
224,275	717,120
14,755	786,674
9,988	899,909
238,389	426,841
	6,525
	62,357
	1,965,544
	280,380
1,354,496	9,940,244

See Notes to Financial Statements.

EASTERN MONTANA COLLEGE
Statement of Current Funds Revenues, Expenditures, and Other Changes - continued
For the Year Ended June 30, 1977

	UNRESTRICTED			
	Education & General	Designated	Auxiliary Enterprises	Total
Other Transfers and Additions (Deductions):				
Excess of restricted receipts over transfers to revenues				
Refunded to grantors				
Payment of National Student Loans	$ (20,178)			
Miscellaneous	(24,618)	$ 25,218		$ (19,578)
Excess of recharge receipts over actual expenses		9,996		9,996
Renewals and replacements			$ (30,661)	(30,661)
Total other transfers and additions (deductions)	(44,796)	35,214	(30,661)	(40,243)
Net increase (decrease) in fund balances	-0-	31,208	66,853	98,061

See Notes to Financial Statements.

RESTRICTED	TOTAL
$ 31,113	$ 31,113
(4,174)	(4,174)
	(20,178)
(600)	
	9,996
	(30,661)
26,339	(13,904)
26,339	124,400

See Notes to Financial Statements.

EASTERN MONTANA COLLEGE
Notes to Financial Statements
June 30, 1977

Note 1 - Summary of Significant Accounting Policies

Accrual Basis

The financial statements of Eastern Montana College have been prepared generally on the accrual basis except for depreciation accounting and allowance for uncollectible loans as explained in Notes 6 and 7 to the financial statements. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses. The financial statements are not comparable in certain respects with those issued in prior years due to revisions made to adhere with appropriate accounting principles and reporting guidelines.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) as transfers of a nonmandatory nature for all other cases.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts of the College are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like, is accounted for in the fund owning such assets.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, and other

restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

State general fund appropriations in the current unrestricted education and general fund are reported as revenues only to the extent expended. These appropriations ultimately are expended after all other revenues of this fund have been exhausted.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

Note 2 - Investments

All investments are recorded at cost. Investments owned by the several funds at June 30, 1977 are as follows:

	Cost	Market or Unit Value
Current unrestricted funds:		
Designated	$ 28,779	$ 28,842
Auxiliary enterprises	420,379	423,501
Current restricted funds	21,107	21,632
Plant funds - Retirement of indebtedness	265,027	265,051
Agency funds	89,690	91,677
Totals	824,982	830,703

Investment income is generally recorded when received. The above investments consist primarily of United States treasury notes and bills, time certificates of deposit, and amounts invested through the Montana State Board of Investments using its Short-Term Investment Pool (STIP).

Note 3 - Inventories

It is the policy of the College to record supplies inventories for certain educational and service departments, in addition to inventories held for resale in auxiliary enterprises such as the bookstore and student union. All recorded inventories are stated at the lower of cost or market using the first-in, first-out method. Supplies inventories at the Physical Plant have not been inventoried and are not recorded in inventory accounts. Purchases of the latter supply items are charged directly to current year expenditures. The recognition of

this inventory would not have a material effect on the College's over-all financial position.

Note 4 - Allowance for Doubtful Accounts - Loan Funds

No provision for uncollectible National Direct Student Loans have been provided for in the accompanying financial statements. The following statistics were provided to the Department of Health, Education, and Welfare in the annual report of the financial aid programs:

Student loans receivable	$ 919,185
Deduct total value of loans not in repayment status (grace period, armed forces, Peace Corps, Vista, student status, hardship)	454,217
Total student loans receivable in repayment status	464,968
Total amount of scheduled loan payments delinquent	$ 82,551
Percentage of principal payments delinquent ($82,551 ÷ $464,968)	18%

The College follows accounting practices for the National Direct Student Loan Fund that are in accordance with government regulations. Those regulations do not provide for recognition of interest receivable or for establishement of allowances for uncollectible loans receivable or future loan cancellations by the government. To that extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government cancellations would add to or reduce the U.S. Government's portion of the Fund balance and, therefore, would not have a significant effect on the College's over-all financial position.

The allowance for doubtful accounts of $21,496 shown in the accompanying balance sheet is for the College's other loan fund.

Note 5 - Bonds Payable

At June 30, 1977 the College had a total of $4,600,000 in outstanding revenue bonds payable. These bonds were issued for construction of various College facilities and are summarized as follows:

- "1956 Indenture" to build a residence facility (Apsaruke Hall). There are $204,000 of bonds outstanding at June 30, 1977. They are due in varying annual installments (on October 1) through 1996. The annual debt service for the year ending June 30, 1978 is $13,500. The future maximum annual

debt service requirement of $14,204 will be in the year ending June 30, 1987. The bonds bear interest at 2 3/4% per annum with semi-annual payment dates (April 1 and October 1). The indenture requires that certain amounts be deposited with a trustee in a bond service account to meet current debt service requirements and maintain a reserve. This requirement was met in the year ended June 30, 1977. One-half of the College's land grant income is pledged to this indenture.

- "1965 Indenture" to refund Series 1959 bonds. There are $695,000 of bonds outstanding at June 30, 1977. They are due in varying annual installments (on July 1) through 1985. The annual debt service for the year ending June 30, 1978 is $89,844. The future maximum annual debt service requirement of $91,969 will be in the year ending June 30, 1981. The bonds bear interest at 3 3/4% per annum with semi-annual payment dates (January 1 and July 1). The significant indenture requirements include an annual earnings requirement of $126,056 and that certain amounts be deposited with the trustee in a bond fund to meet current debt service requirements and to maintain a reserve. These requirements were met in the year ended June 30, 1977.

- "1964 Resolution" to build a residence facility (Petro Hall) and to refund Rimrock Hall revenue bonds, issued in two Series. There are $3,701,000 of bonds outstanding at June 30, 1977. They are due in varying installments (on October 1) through 2004. The annual debt service for the year ending June 30, 1978 is $213,950. The future maximum annual debt service requirement of $218,650 will be in the year ending June 30, 1990. The bonds bear interest at 3 1/8% and 3 5/8% per annum with semi-annual payment dates (April 1 and October 1). Significant requirements include that "net revenues" of the facilities be sufficient to make required transfers to "bond service" and "repair and replacement reserve" accounts maintained by a trustee. All requirements were met except that the College did not make a required transfer of $41,600 to the repair and replacement reserve before June 30, 1977.

The College records interest expense on the above bonds when paid. The recognition of accrued interest expense would not have a material effect on the College's overall financial position.

Note 6 - Changes in Fund Balances as Previously Reported and Other Adjustments

In order to more properly reflect College activities, several adjustments and reclassifications were made to various College fund balances as previously reported at June 30, 1976. These changes included the following:

Fund Balances, June 30, 1976:

As previously reported

Computer purchase in year ended June 30, 1976 paid from restricted funds. Should have been recorded as a loan to unrestricted education and general funds; however, purchase was recorded as expenditure in both funds. The loan was repaid in year ended June 30, 1977. Was also recorded in plant funds (see below).

Allowance for doubtful accounts - National Direct Student Loan Program. Because of discussion in Note 4, an allowance is not considered necessary.

Correction of miscellaneous errors

As adjusted

Fund Balances, June 30, 1976:

As previously reported

Computer purchase described above

Elimination of "spending authority" previously reported as an asset in the unexpended plant fund

Reclassification of beginning construction-in-progress

Reclassification of "repair and replacement reserve" trustee account

As adjusted

Current Funds		
Auxiliary Enterprises	Restricted	Loan Funds
$ 731,919	$ 79,825	$ 782,968
	52,043	
		86,632
80	280	
731,999	132,148	869,600

PLANT FUNDS			
Unexpended	Renewals and Replacement	Retirement of Indebtedness	Investment in Plant
$ 1,518,093	$ -0-	$ 771,764	$14,090,135
			52,043
(1,387,418)			
(59,511)			59,511
	41,600	(41,600)	
71,164	41,600	730,164	14,201,689

In addition to the foregoing adustments, revenues of the current unrestricted education and general fund include approximately $25,000 of admissions fees which were collected prior to July 1, 1976. Since these fees would reduce current revenues from state governmental appropriations (see Note 1 regarding state governmental appropriations), there would be no effect on total revenues. Accordingly, the statement of revenues, expenditures and other changes has not been adjusted.

The financial statements for the year ended June 30, 1976, understated cash and tuition and fee income by $30,000. The understatement was the result of duplication in recording certain journal entries at the time the College transferred funds to the Montana State Treasurer. Correcting entries were made to increase cash with a corresponding increase in the account, Due to State General Fund.

An allowance for doubtful accounts of $15,000 previously unrecognized in the current unrestricted education and general fund was recorded at June 30, 1977. This allowance pertains mainly to receivables arising prior to July 1, 1976. Consequently, no bad debt expense has been recognized for the year ended June 30, 1977, but rather the allowance was recorded with a corresponding reduction to the account, Due to State General Fund.

Note 7 - Investment in Plant

Investment in plant represents an accumulation of the cost of purchased assets. Property disposed of is not deleted from accounting records nor is any accounting recognition given to plant fund assets received through gifts.

Note 8 - Retirement Programs

Retirement benefits are provided for the academic staff through the Montana Teachers' Retirement System (TRS) and non-academic staff through the Montana Public Employees' Retirement System (PERS). Both plans are operated by the State of Montana and membership is compulsory for the respective classes of employees. Contributions for participants and the College are based on a percentage of the participant's salary.

Defined benefits under both plans are based on years of service and final average salary of the participant. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans has not been determined. The College's share of the cost of these plans for the year ended June 30, 1977 was $294,266.

Note 9 - Commitments and Contingent Liabilities

- Accounting for major construction projects of the College is performed by the Architecture and Engineering Bureau of Montana Department of Administration. At June 30, 1977 certain projects had a remaining spending authority (i.e., funds appropriated for College building projects) from the State of approximately $666,000. Since these funds will become available to the College only when construction costs are incurred, they have not been included in the College balance sheet as assets.

- The College is involved in three lawsuits, only one of which currently represents potential liability. This lawsuit, which names the College as defendant, involves a former faculty member who is claiming breech of contract. The plaintiff is seeking a total of approximately $236,000 in general, punitive, and other damages. The College's legal counsel believes the case will be settled for substantially less than the damages sought, and, accordingly, this item will not have a material effect on the College's overall financial position.

- The value of unused vacation and sick leave accumulated by employees is not recorded as a liability. At June 30, 1977 most permanent employees could accumulate and carry to the following calendar year two times the maximum number of vacation days earned annually. Unused vacation leave is purchased at full value from employees upon termination. Upon termination, unused sick leave earned since July 1, 1971 is purchased from the employee at 25 per cent value.

AGENCY REPLIES

Eastern Montana College

BILLINGS, MONTANA 59101

of the President

December 7, 1977

Janke & Van Delinder
Certified Public Accountants
720 North 30th Street
Billings, Montana 59101

Gentlemen:

This letter is in response to the Report on Examination of Financial Statements for the Fiscal Year Ended June 30, 1977. For the most part, Eastern Montana College concurs with the recommendations made by you, and we wish to compliment you for your courtesy to our staff and for the informal suggestions you provided during the course of the examination.

The comments listed below endeavor to answer each recommendation made by you.

Audit Recommendation

> The College should keep currently informed as to the status of trust account investments and give the trustee aid and direction in the investment of these monies with a goal to achieve a maximum return compatible with the terms and conditions set forth in the bond indenture.

Discussion of the Recommendation

The College concurs and has initiated procedures to assure a maximum return on the trust investments in a manner compatible with the terms and conditions contained in the bond indentures.

Audit Recommendations

> We recommend that the College strengthen internal control over Housing income. In this regard we offer the following suggestions:

1. Segregate the duties of maintaining student ledger cards from the duty of receiving student payments; preferably by transferring to the Business Office cashier the responsibility of receiving all student payments.

2. Recognize income and receivables on the College general ledger from student housing at the time the charge is entered on the student ledger card. This can be done by utilizing the posting machine totals that are generated whenever transactions are posted to student ledger cards. Periodic reconciliation should be made between the general ledger and the detail accounts receivable ledgers.

3. The accounts receivable should be aged at least monthly with copies of the aging report sent to all responsible officials.

Discussion of the Recommendations

The College concurs with all three recommendations and will transfer the responsibility for collection of the Housing accounts to the Business Office cashier and the bookkeeping responsibilities to the Controller's Office. General ledger accounts will reflect income and receivables at the time charges are incurred and subsidiary student record cards will be maintained. Totals will be reconciled monthly.

Accounts receivables will be aged periodically and the appropriate parties notified.

Audit Recommendations

To strengthen internal control, we recommend the following:

1. Damage deposits to be received directly by the Business Office (see recommendation #1 under Housing Office Receipts).

2. The Housing Office should notify the Business Office as to any non-cash charges to students in order that appropriate adjustment may be made to the general ledger.

3. Periodically, certainly at fiscal year-end, the detail and

3. (continued) general ledger should be reconciled. Significant differences, if any, should be investigated.

Discussion of the Recommendations

The College concurs with all three recommendations and will proceed to follow the procedures outlined in the discussion of the Housing Office above.

Audit Recommendation

Even though the errors were corrected, the College should exercise caution in the future to ensure that property acquisition and improvements are made from the proper funds.

Discussion of the Recommendation

The College concurs and will continue its attempts to properly code all transactions.

Audit Recommendations

The College should continue in its efforts to improve accountability over its investment in plant. In this regard, we recommend the following:

1. The College should conduct a complete physical inventory of fixed assets and provide the inventoried assets with individualized identification tags.

2. Detail property records should be maintained and periodically reconciled to the general ledger. In the absence of historical cost records, the assets may be stated at historically based appraised values with subsequent additions at cost.

3. Property records should be relieved for disposals of property.

4. In accordance with the industry audit guide, property acquired by gift should be recorded at fair market value at the date of gift.

5. Supporting documents for the purchase of fixed assets should indicate the item being replaced or purpose of an addition.

Discussion of the Recommendations

Similar audit recommendations have been included in previous audit reports and the College generally concurs that the inventory and recordation of fixed assets is a sound practice. However, adequate resources to fund such a record system and to maintain it have not been appropriated. Current estimates indicate that the initial inventory, tagging, and recording would cost about $75,000 with an annual operating budget to maintain such a system estimated at $33-39,000 per year. When instructional cost per student at Eastern Montana College remains the lowest in the System, it is difficult to justify spending funds for this kind of system when needs are critical in the library and instructional areas.

As the College has replied before, the highly movable equipment, i.e., audio visual and scientific apparatus, is tagged and logged as to whom has the equipment, where it is located, and when it is to be returned. These items of equipment, we believe, are adequately controlled. Other equipment on the campus is assigned to the various departments. While several of these departments maintain detailed records, no centralized records are maintained. We feel that any expenditure made toward the establishment of such a system is unwarranted and wasteful until such time as adequate resources are pledged by the Legislature to such a project to properly initiate and maintain it on a day-to-day basis.

It is our understanding that the Department of Administration is developing a Property Accountability Management System (PAMS) and we will review it carefully as to what it can or will do for us. PAMS will not inventory the equipment, but it should assist in the accounting requirements. Depending on cost to install and operate, this system could prove to be the solution we are all seeking.

Property acquired by gift, if any, will be recorded at market value at the date it is received. The College has received three pieces of property in this fashion - the original tracts of land in 1927 and 1947, and the land and improvements used as the President's residence in 1968. These items are recorded in subsidiary records but were not formally booked. These items have now been properly recorded.

Audit Recommendation

We recommend the Board of Regents review the practice and adopt a uniform policy regarding the purchase of delinquent National Direct Student Loans.

Discussion of Recommendation

See the response from the Commissioner of Higher Education.

Audit Recommendations

In order to promote consistency and/or comparability among the units we recommend the following:

1. The Board of Regents should establish a policy as to the necessity of allocation of general and administrative expenses, and, if considered necessary, the individual units should be provided with specific instructions as to the allocation methods to be used.

2. The College should review all charges being made to the operation and maintenance program to ascertain whether all charges are being included. Furthermore, the Office of Commissioner of Higher Education should be consulted to ensure consistency and comparability among the units.

Discussion of the Recommendations

1. See the response from the Commissioner of Higher Education.

2. The College concurs and will consult with the Commissioner of Higher Education to ensure that cost allocations are consistent and comparable.

Audit Recommendations

We recommend the following:

1. The College should establish control over the physical plant inventories by maintaining perpetual records similar to the stores operation. The inventory should also be reflected in the financial statements.

2. Personnel responsible for inventories be cautioned as to the importance of accurate counts and proper cutoff and storage.

3. Periodic test counts of inventories should be taken and compared to the perpetual records. Significant discrepancies should be investigated.

Discussion of the Recommendations

The College concurs that inventory systems need to be improved and/or installed. As resources are available, we will continue in our attempts to improve these systems. The Bookstore inventory system is adequate and verified by a physical count. The fiscal-year end physical count is observed and verified by the certified public accounting firm retained for the audit of the Bookstore operation.

The "stores" operation employs a student as a part-time clerk. The "perpetual inventory" system is admittedly a poor inventory system and is really only a time to re-order device. A physical inventory is taken at the end of the fiscal year and this inventory was observed by the certified public accounting firm retained for the audit of this operation.

The Physical Plant stores is an area that we have not been able to control due to limited space. Fortunately, the 1977 Legislature appropriated funds for a new Physical Plant facility. When that structure is completed, we will be able to better address the inventory control problem in that area.

Audit Recommendations

1. The Commissioner's Office should complete the study of and implement a new payroll system which will eliminate present inefficiencies.

2. Duties and responsibilities of payroll personnel should be rearranged so that payroll warrants and Form W-2's are received and distributed by someone other than the persons responsible for the preparation. In addition, unclaimed warrants and W-2's should be handled and investigated by someone outside the payroll department.

Discussion of the Recommendations

1. See the response from the Commissioner of Higher Education.

2. The College concurs with the recommendation and will rearrange the duties of the Business Office personnel as recommended.

Audit Recommendation

We recommend the College should either (a) amend the agreement to provide for investment in STIP or (b) comply with the investment instructions of the present agreement.

Discussion of the Recommendation

The College concurs and the agreement is in the process of being amended as recommended.

Audit Recommendations

We recommend the following:

1. The financial aid director should prepare a list of reports and summary of instructions to ensure that reports are filed on a timely and accurate basis.

2. The Financial Aid Office should review its reports with the Business Office to ascertain that the reports are in agreement with the College's accounting records.

Discussion of the Recommendations

The College concurs with the recommendations. The financial aid director and controller are in the process of working out procedures to ensure that all reports agree with the College's accounting records.

Audit Recommendation

> The College should obtain written approval for non-compliance with applicable rules and regulations of restricted funds.

Discussion of the Recommendation

The College concurs and will obtain written approval for all fund balance transfers on grants and contracts.

Audit Recommendations

> We recommend the following:
>
> 1. Restricted funds should not be used to make inter-entity loans. Although the funds' restrictions may contain no specific prohibition against making loans of this type, the College will avoid jeopardizing future grants by discontinuing these loans.
>
> 2. The College should take steps to ensure that all inter-entity loans are accounted for separately in its accounting records.

Discussion of the Recommendations

1. We disagree with the recommendation as written. It is not an unlawful practice to borrow from any fund--especially restricted funds--as long as the terms and conditions governing the individual accounts in any fund group are not violated.

2. The College will separately record inter-entity loans in the accounting records.

Audit Recommendation

Change funds needed on a temporary basis should be promptly returned to the Montana State Treasurer.

Discussion of the Recommendation

The College concurs and will promptly return change funds needed on a temporary basis, e.g. registration.

Audit Recommendations

We recommend the following:

1. Journal entries should be adequately supported by complete explanations or references to work papers supporting the entries. Furthermore, all entries should be reviewed and approved by appropriate supervisors.

2. All journal entries should be recorded only after approval by all appropriate College personnel.

Discussion of the Recommendations

The College concurs with both recommendations and will document and explain all journal entries.

It is hoped that the above comments are satisfactory; and my staff and I will be pleased to discuss them in more detail with the Legislative Audit Committee, should that be necessary.

Sincerely,

John E. Van de Wetering
President

kh
xc: Dr. Lawrence K. Pettit, Commissioner of Higher Education

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA
59601

COMMISSIONER OF HIGHER EDUCATION

December 6, 1977

Janke and VanDelinder
Certified Public Accountants
720 North 30th Street
Billings, Montana 59101

Gentlemen:

Following is my response to those recommendations made in your audit report of Eastern Montana College which concern Systemwide applications.

Purchase of Delinquent NDSL Loans: We will immediately institute the appropriate administrative processes which will ultimately lead to the establishment of a Systemwide policy.

Allocation of general and administrative expenses: We will immediately institute the appropriate administrative processes which will ultimately lead to the establishment of a Systemwide policy.

Installation of a new payroll system. We will complete the now ongoing study which is designed to assess the strengths and weaknesses of our several payroll systems. We will apprise you of the results at the conclusion of that study.

In closing, in behalf of the System's staff, I wish to acknowledge and commend especially Mr. Ehrlick for the cooperative attitude which was displayed throughout this engagement.

Sincerely,

Lawrence K. Pettit
Commissioner of Higher Education

LKP:co

cc: President John E. Van de Wetering